

City of Otsego
Allegan County, Michigan
**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**
Year ended June 30, 2008

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MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Otsego, Michigan Management's Discussion and Analysis

The following discussion and analysis is intended as a narrative overview of the City of Otsego's operations over the fiscal year and its financial condition on June 30, 2008.

Financial Highlights

- § The City's total net assets increased \$485,604, or 3.6 percent, as a result of this year's operations. Net assets of the governmental activities increased \$160,080, or 2.4 percent, whereas net assets of the business-type activities increased \$325,524, or 4.8 percent.
- § Of the \$13,993,180 total net assets reported, \$3,435,768 is available to be used to meet future operating and capital improvement needs.
- § The General Fund unreserved undesignated fund balance at the end of the fiscal year was \$736,763, which represents 32.7 percent of the actual total General Fund expenditures for the fiscal year.

Overview of the Financial Statements

This discussion and analysis introduces the City's basic financial statements that follow this section. The City's basic financial statements are comprised of three components: government-wide financial statements, fund financial statements and notes to the financial statements. Additional supplementary information is also included to provide a more detailed view of the City's financial structure and support to the information provided in the basic financial statements.

This is the fifth year using the Governmental Accounting Standards Board Statement 34 (GASB 34) reporting format. A comparative analysis of the basic financial statements will be made using the current and last year's basic financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a format similar to that of private-sector financial statements. The Statement of Net Assets and the Statement of Activities are designed to be corporate-like in that all the governmental and business-type activities are consolidated into columns that add to a total for the Primary Government. These statements should help the reader to answer the question: Is the City, as a whole, in a better or worse financial position as a result of this year's activities? These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting. The current year's revenues and expenses are recognized regardless of when cash is received or paid.

The Statement of Net Assets reports all of the City's assets and liabilities along with the difference between the two, which is identified as the net assets. This statement combines and consolidates short-term spendable resources (e.g., cash, receivables, inventory, etc) with capital assets. Increases and decreases in net assets may serve as an indicator over time as to whether the City's financial position is improving or deteriorating. However, other factors must also be considered when evaluating the overall financial position such as the status of the City's infrastructure and property tax base.

The Statement of Activities reports both the gross and net cost of the various programs and activities of the City that are funded by property taxes and other revenue sources. This presentation is intended to summarize the cost of providing the various governmental services. This statement also shows the change in the City's net assets over the fiscal year. All changes in net assets are reported when the underlying events occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements report three types of activities:

1. *Governmental Activities.* These activities include functions most commonly associated with government (e.g., police, fire, public works, parks, etc.). Property taxes and intergovernmental revenues usually fund these services.
2. *Business-Type Activities.* These activities provide services that are supported by customer user fees. The user fees are calculated to provide all or the majority of the operating costs involved in providing the services. The City operates two business-type activities that reflect the private sector type operations, water and sewer services. The City operates a third activity referred to as the Capital Project Fund, which is classified as a business-type activity because it currently involves residential plat development, which is recovered through the sale of lots.
3. *Discretely Presented Component Units.* Component units are legally separate organizations, which the City (the City Commission) can exercise influence and/or for which the City is financially accountable. The City has one component unit, the City of Otsego Downtown Development Authority (DDA). The financial statements are primarily focused on the City. The component unit information, however, is presented to show its activity and relative financial relationship to the primary government.

Fund Financial Statements

Fund financial statements are presented in a manner similar to the reporting format of prior years. These detail the activity that has occurred in the City's most significant funds. Individual funds, or fund accounting is necessary to track revenues and expenditures that are directly related to specific activities or required by statute/ordinance to be budgeted and accounted for separately. To be reported separately and considered as a major fund, however, a fund's total assets, liabilities, revenues, or expenditures must be at least 10 percent of the total assets, liabilities, revenues, or expenditures for all funds of that category or type.

The City's funds are classified into three categories, which each use a different accounting approach:

1. *Government Funds.* These funds account for essentially the same functions reported as governmental activities in the government-wide financial statements mentioned above. The governmental fund statements, however, are presented on a modified accrual basis, which focuses on the short-term (60 day) sources and uses of available resources, as well as the balance of spendable resources at the end of the fiscal year. A review of these statements can show if there has been an increase or decrease in the resources available to continue providing services to our residents. The relationship between governmental activities reported in the Statement of Net Assets and Statement of Activities and the governmental fund statements is reconciled in the financial statements. Governmental funds include the General Fund, special revenue funds, capital project funds, and debt service funds.
2. *Proprietary Funds.* Proprietary funds account for the expenditures involved in providing particular services to customers who are then charged fees calculated to recover the costs of operation. These funds use accrual accounting, which is the same method used by private sector businesses. The City maintains two different types of proprietary funds: enterprise and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer, and land development services. Internal service funds are used to accumulate and allocate costs internally across various City functions. The City uses internal service funds to account for its DPW Equipment Fund that essentially functions as a motor pool. Because the equipment is rented by the hour to provide services, which predominately benefit governmental rather than business-type functions, it is included within governmental activities of the government-wide financial statements.
3. *Fiduciary Funds.* These funds record the collection and disbursement of resources, primarily taxes and insurance premiums, for the benefit of parties outside the government. These funds are not reported in the government-wide financial statement because the resources reported here represent a trust relationship and are not, therefore, available to the City to provide services to residents. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The City's fiduciary activities are reported in separate Statements of Net Assets - Fiduciary Funds, and Statement of Changes in Fiduciary Assets. These funds are also reported using accrual accounting.

Notes to the Basic Financial Statements

The notes provide additional information that is necessary to understand the data reported in the government-wide and fund financial statements.

Required Supplementary Information

Following the basic financial statements is additional required supplementary information that further explains and supports the information in the financial statements. The required supplementary information includes budgetary comparison schedules.

Supplementary Information

Following the required supplementary information are combining financial statements for non-major governmental funds. These funds are added together and presented in a single column in the basic financial statements, but are not reported individually, as with major funds, on the governmental fund financial statements. This section also includes governmental fund balance sheets, budgetary comparison schedules for each of the City's funds, and financial statements for the component unit.

Financial Analysis of the Government as a Whole

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Statement of Net Assets reveals favorable or positive balances in all three of the government-wide columns (Governmental activities, Business-type activities, and Totals), as well as the Component Unit column. A negative balance would indicate a deficit situation that would require further disclosure of plans to reverse the balance in the subsequent fiscal year.

A two-year comparison of the Statement of Net Assets is shown in Table 1. In the City's case, total assets exceeded total liabilities at the end of the fiscal year by \$13,993,180. However, the majority of the City's net assets (60.2 percent) represent an investment in capital assets (e.g., land, roads, storm sewers, water and sewer systems, buildings, and equipment) less outstanding debt used to acquire or construct these assets. Because the City uses these capital assets to provide essential services to citizens, these assets are not available to be liquidated for future spending needs. Although the City's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay the debt must be provided from other sources because the capital assets themselves cannot be used to satisfy these liabilities.

Overall, total net assets increased by 3.6 percent as a result of excess revenues over expenses for the year.

A total of \$2,136,265 of the City's net assets is restricted for public works, public safety, and bond debt repayment. The City may use the remaining balance of unrestricted net assets of \$3,435,768 to meet its ongoing obligations to citizens and creditors. Unrestricted net assets for governmental activities decreased by 10.1 percent for the fiscal year, and unrestricted assets for the business-type activities decreased by 1.9 percent. Decreases in unrestricted net assets for both governmental and business-type activities resulted primarily from an increase in capital assets, which caused an increase in the portion of net assets invested in capital assets. The current level of unrestricted net assets for governmental activities represents about 55 percent of the past fiscal year's expenses. The unrestricted assets are not necessarily cash or cash equivalents, but also include long-term and other assets not immediately available.

Table 1
Statement of Net Assets - Two Year Comparison

<i>(In thousands of dollars)</i>						
	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Totals</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
Current and other assets	\$ 3,549	\$ 4,159	\$ 2,297	\$ 2,547	\$ 5,846	\$ 5,934
Capital assets	3,581	2,810	5,100	4,880	8,681	8,462
Total assets	7,130	6,969	7,397	7,427	14,527	14,396
Other liabilities	98	103	61	418	159	521
Long-term debt	89	83	286	284	375	367
Total liabilities	187	186	347	702	534	888
Net assets:						
Invested in capital assets						
net of related debt	3,581	3,582	4,840	4,485	8,421	8,067
Restricted	2,012	1,698	124	113	2,136	1,811
Unrestricted	1,350	1,503	2,086	2,127	3,436	3,630
Total net assets	\$ 6,943	\$ 6,783	\$ 7,050	\$ 6,725	\$ 13,993	\$ 13,508

Statement of Activities

A similar two-year comparison of the Statement of Activities is shown in Table 2. This table identifies many of the substantial changes that occurred in revenues and expenses over the fiscal year.

A review of the Program Revenues shows modest increases in charges for services for the second straight year. Although charges for services for business type activities are still below historical levels, new industrial utility usage has increased revenues compared to last year. Total business-type activities remain affected by a reduction in residential lot sales in the Capital Project Fund. Increases in charges for services for governmental activities can be partially attributed to additional revenues related to various permit fees and the fire department's services to neighboring municipalities.

Other differences in revenues occurred in property tax revenue and investment income. Property taxes show a small decrease of 1.8 percent. This decrease occurred because the increase in ad valorem taxable value did not fully offset the lost tax abatement taxable value. Investment income shows a significant decrease in 2008 of 20.2 percent due to market conditions and decreases in funds available to be invested, as significant cash outlays were required for capital asset construction during the year.

Under governmental expenses, four programs show increases and two show decreases from the prior year, for a net increase of 4.6 percent. Three of the program increases were very modest (.5 to 11.2 percent) based upon wage increases. The program increase for Community and Economic Development was very significant due to the creation of an Economic Development Director position and the hiring of a contractor to provide those services. All of the program increases were anticipated as the budget was developed.

Governmental activities increased the City's net assets by \$160,080, thereby accounting for 33 percent of the total growth in the net assets of the City. The change was about 25 percent less than the increase in governmental activity net assets realized in fiscal 2006-07. Key factors allowing for this relative decrease included reductions in certain revenues, including property taxes and investment income referenced above, and moderate increases in expenses for public safety and economic development.

Business-type activities increased the City's net assets by \$325,524, accounting for the remaining 67 percent of the total growth in the City's net assets. The growth of these net assets increased more than \$169 thousand from the amount realized in fiscal 2006-07. Key factors that allow the continued growth of business-type net assets are as follows:

- \$ Increased water and sewer utility usage and rates, increasing service revenues by about \$37 thousand
- \$ A refund of \$119 thousand in property taxes on developed land due to a successful appeal to the Michigan Tax Tribunal

Overall, the business type activities benefited from increased operating revenues and a net reduction in operating costs. A \$60 thousand capital transfer from the City's Downtown Development Authority is also included in the net asset increase.

Table 2
Statement of Activities - Two Year Comparison

(In thousands of dollars)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Program revenues:						
Charges for services	\$ 254	\$ 203	\$ 984	\$ 947	\$ 1,238	\$ 1,150
Operating grants	297	315	-	-	297	315
Capital grants	76	21	60	43	136	64
General revenues:						
Property taxes	1,292	1,316	-	-	1,292	1,316
Public service tax	116	111	-	-	116	111
State grants	380	383	-	-	380	383
Franchise fees	38	37	-	-	38	37
Investment earnings	150	168	55	89	205	257
Other	14	8	119	-	133	8
Total revenues	<u>2,617</u>	<u>2,562</u>	<u>1,218</u>	<u>1,079</u>	<u>3,835</u>	<u>3,641</u>
Expenses:						
Legislative	11	10	-	-	11	10
General government	578	595	-	-	578	595
Public safety	1,042	937	-	-	1,042	937
Public works	724	720	-	-	724	720
Community and economic development	27	3	-	-	27	3
Parks and recreation	75	83	-	-	75	83
Land development	-	-	30	108	30	108
Sewer	-	-	528	493	528	493
Water	-	-	335	322	335	322
Total expenses	<u>2,457</u>	<u>2,348</u>	<u>893</u>	<u>923</u>	<u>3,350</u>	<u>3,271</u>
Increase in net assets	<u>\$ 160</u>	<u>\$ 214</u>	<u>\$ 325</u>	<u>\$ 156</u>	<u>\$ 485</u>	<u>\$ 370</u>

Financial Analysis of the City's Funds

The last section of the financial report, entitled "Supplementary Information," includes balance sheets and statements of revenues, expenditures, and changes in fund balance in more detail for each of the City's funds. The latter statements also include the amended budgets as adopted and approved for each fund. These reports will likely be more familiar to city commissioners and staff as they are more closely formatted in a manner similar to the monthly financials reports.

General Fund

The General Fund is the chief operating fund of the City. At the end of the fiscal year, total unreserved fund balance was \$856,763, which is \$145,491 less than the prior year. The decrease in unreserved fund balance occurred primarily because of increases in expenditures for police operations, fire equipment, building inspections, and economic development. Including a \$1,611 increase in the restricted portion of fund balance, the total fund balance decreased by \$143,880, to equal \$859,717 at year-end. The designated portion of unrestricted fund balance was increased by \$20,000 this year, and now totals \$120,000. The designated amount is for the future purchase of a fire vehicle.

The differences between the original budget and the final amended budget for revenue and expenditures were \$102,455 and \$217,350, respectively. This amounted for roughly a 4.9 percent increase in revenues and a 10.4 percent increase in expenditures. The primary reasons for the budgeted revenue increase were increased sales of building related permits, a federal public safety grant, and investment interest, which exceeded original projections. The expenditure budget was adjusted to acknowledge operating costs, which also exceeded original estimates, as well as the purchases of a natural gas generator, commercial washer, and diesel exhaust removal system funded by the federal public safety grant.

The difference between the actual and budgeted amounts can be attributed to continued cost containment measures by department administration. Five departments exceeded their budgets by relatively small amounts due to operating costs, which exceeded late year revised projections. The General Fund continues to maintain an unrestricted fund balance in excess of 30 percent of expenditures. This will allow the City to maintain its current level of services during the current economic environment.

Major Street Fund

The City receives revenues from the State of Michigan to maintain 8.56 miles of major streets as defined by Public Act 51 of 1951. Also included in this fund are operating costs to maintain the M-89 State Highway, according to contract. Although the Washington Street Capital Improvement Project was budgeted this fiscal year, actual construction will occur in fiscal year 2008-2009. Because of the revised timing of the capital improvement project and cost containment within the operations and maintenance budget, fund balance increased by \$128,964 to \$700,655. This fund balance will be available for future capital improvement projects.

Local Street Fund

The City receives revenues from the State of Michigan to maintain 12.8 miles of local streets as defined by Public Act 51 of 1951. Subsidies are regularly transferred from the Major Street Fund and/or the Street and Bridge Fund to accumulate sufficient resources to cover anticipated future street maintenance and capital improvement costs. Revenues and other sources, including an \$18,780 transfer from the Street and Bridge Fund, exceeded expenditures by \$48,048, increasing fund balance to \$320,509. This fund balance will be available for future capital improvement projects.

Street and Bridge Fund

The Street and Bridge Fund is a special revenue fund in which the City records a portion of the road tax collected by Allegan County. Because the county does not maintain any roads within the City, and there are no agreements otherwise between the County and the City, the County provides a portion of these monies to the City for capital improvement projects or road maintenance in accordance with Michigan Compiled Laws 224.20b. Revenues exceeded the transfer to the Local Street Fund, so that fund balance increased by \$135,704, to \$987,883. During the year, the Street and Bridge Fund made a \$750,000 long-term loan to the Downtown Development Authority to help finance a construction project. The loan is to earn interest at the City's current investment rate of return, and is to be repaid within five years. The unreserved fund balance, net of outstanding interfund loans, now totals \$237,883.

Special Assessment Capital Project Fund

The fund did not provide any resources to capital improvement projects, and realized a \$27,097 increase in fund balance from the collection of outstanding special assessments and investment interest. This fund also made a \$175,000 long-term loan to the Downtown Development Authority. Unreserved fund balance available for future capital improvement projects, net of outstanding interfund loans, now totals \$170,775. The total fund balance is \$345,775.

Sewer Fund

Total operating revenues were \$43,812 or 7.2 percent more than original projections, primarily coming from generally increased rates, and new industrial usage. Charges for services were \$39,697 or 6.6 percent more than projected. With more than expected revenues and \$30,367 less than expected expenses, Total Net Assets increased \$166,473 or 3.9 percent over the fiscal year. Total Net Assets are \$4,408,013 at year-end.

Water Fund

Total operating revenues were \$28,341 more than projected, or 10.2 percent. Charges for services were \$23,556 more than the amount budgeted, or 8.8 percent, reflecting the above-referenced increased usage and rates. Total operating expenses were less than projections by \$86,522, or 20.9 percent. Total Net Assets increased \$41,922 or 2.2 percent over the fiscal year. Total Net Assets are \$1,917,442 at year-end.

Capital Project Fund

This fund is also a proprietary fund and has been involved with the development of seven residential plats and three commercial parcels with M-89 frontage. Lot prices in each of the plats have been calculated to offset construction and land acquisition costs. During the fiscal year, one residential lot was sold, leaving 24 lots available for sale. Two commercial lots remain available for sale at year-end. The value of the lots held as inventory at year-end totaled \$786,684. The \$26,400 lot sale during the fiscal year exceeded the related development costs of \$15,244, yielding a profit on sales of \$11,156. Taking other expenses into consideration, including legal and other costs, and adding a one-time \$119,455 Michigan Tax Tribunal refund of taxes paid in prior years, net assets increased by \$117,129 or 19.3 percent to \$724,855.

DPW Equipment Fund

Operating revenues were more than projected by \$24,355, 14.1 percent, while operating expenses exceeded projections by \$55,621, or 39 percent. The increase in revenue can be attributed to an increase in equipment use due to additional capital improvements projects this year. The increase in expense is largely due to fuel and other operating cost increases. The fund saw its net assets increase by \$7,457, or 1.7 percent to \$446,625.

Capital Assets and Debt Administration

Capital Assets:

The City investment in capital assets for its governmental and business-type activities as of June 30, 2008, amounts to \$8,681,147 (net of accumulated depreciation). This investment includes a broad range of assets. Overall there was a total increase in the City's net investment in capital assets for the current fiscal year of \$219,966. The increase was due to the excess of capital assets acquired over depreciation.

Governmental capital asset additions were comprised primarily of equipment and vehicle purchases, including over \$75 thousand of public safety equipment purchased with a federal capital grant.

The largest capital acquisitions during the year were \$721 thousand in sewer system projects and \$132 thousand in water main construction, both completed by the end of the fiscal year.

Additional information regarding the City's capital assets can be located in Note 5 of the notes to basic financial statements.

Long-Term Debt:

At the end of the fiscal year, the City had total long-term bonds and notes outstanding of \$260 thousand representing bonds secured solely by specific revenue sources (i.e., revenue bonds).

The last rating the City received from Standard & Poor's for limited tax general obligation debt was a "BBB-" in 2002.

State statutes limit the amount of general obligation debt the City can issue to 10 percent of its total state equalized assessed value of property, computing to \$11,933,113 based upon 2008 property values. The City has no outstanding general obligation debt at the end of the fiscal year.

Other long-term debt obligations totaling a little more than \$109 thousand represent accrued compensated absences. Additional information is presented in Note 6 to the basic financial statements.

Economic Condition and Outlook

The City's General Fund budget for the next year projects a decrease of 3.6 percent in State Share Revenues. This comes after five years of progressively lower revenues from the State. Total property tax revenues are projected to increase 4.5 percent or approximately \$70 thousand. A significant portion of the increase in taxable value can be attributed to the investment made to the Otsego Paper Company plant by United State Gypsum. The City's component unit, the DDA, captures the increased tax base due to this investment because the plant lies within the DDA district. The \$8 thousand or .6 percent increase in expected General Fund tax revenues will occur mostly because of a moderate increase in the solid waste reduction millage levy used to fund the City's recycling programs, leaf pickup, and transfer station.

The City's component unit, the DDA, completed construction of a new department of public works facility in accordance with its development plan that expires in 2025. The DDA continues to capture 100 percent revenues from tax increment financing within the district and has received interfund loans to be repaid, with interest, from future property taxes collected by the Authority. The tax increment financing capture reduces the amount of property taxes that would otherwise be available to the City, and requires the continued consideration of cost saving measures such as delays or freezes in capital purchases and/or other program reductions.

The City's sewer and water utility net assets continue to increase. This reflects the renewed industrial activities within the City, and continued attention of management to efficient maintenance and cost containment.

Contacting the City's Financial Management

This financial report is designed to provide a general overview of the City's finances to its citizens, customers, investors and creditors, and to demonstrate the City's accountability for the money it receives. Questions regarding any information provided in this report or request for additional financial information should be addressed to:

Matthew Storbeck, Finance Director
City of Otsego
117 East Orleans Street
Otsego, MI 49078-1199

Phone: (269) 692-2741
E-Mail: finance.dir@ci.otsego.mi.us

INDEPENDENT AUDITORS' REPORT

City Commission
City of Otsego, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Otsego, Michigan, as of June 30, 2008, and for the year then ended, which collectively comprise the City's basic financial statements, as listed in the contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Otsego, Michigan, as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis and budgetary comparison information, as listed in the contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the City of Otsego, Michigan's basic financial statements. The combining and individual fund financial statements, as listed in the contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City of Otsego, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Siegfried Crandall P.C.

September 9, 2008



1958-2008

BASIC FINANCIAL STATEMENTS

City of Otsego
STATEMENT OF NET ASSETS
June 30, 2008

	Primary government			
	Governmental activities	Business-type activities	Totals	Component unit
ASSETS				
Current assets:				
Cash	\$ 1,910,923	\$ 1,066,137	\$ 2,977,060	\$ 100,293
Receivables, net	450,106	248,738	698,844	-
Internal balances	115,538	(115,538)	-	-
Due from component unit	218,994	-	216,994	-
Inventory	5,602	812,238	817,840	-
Prepaid costs	71,662	15,574	87,236	888
Total current assets	2,770,825	2,027,149	4,797,974	101,181
Noncurrent assets:				
Restricted cash	-	269,264	269,264	64,438
Receivables, net	53,663	-	53,663	-
Due from component unit	725,000	-	725,000	-
Capital assets, not being depreciated	772,498	23,052	795,550	98,069
Capital assets, net of accumulated depreciation	2,808,274	5,077,323	7,885,597	2,703,455
Total noncurrent assets	4,359,435	5,369,639	9,729,074	2,865,962
Total assets	7,130,260	7,396,788	14,527,048	2,967,143
LIABILITIES				
Current liabilities:				
Accounts payable	70,350	58,754	129,104	90,553
Accrued liabilities	15,157	1,802	16,959	450
Customer deposits	12,457	-	12,457	-
Due to primary government	-	-	-	216,994
Current portion of long-term obligations	-	145,000	145,000	-
Total current liabilities	97,964	205,556	303,520	307,997
Noncurrent liabilities:				
Long-term obligations	89,426	140,922	230,348	-
Due to primary government	-	-	-	725,000
Total noncurrent liabilities	89,426	140,922	230,348	725,000
Total liabilities	187,390	346,478	533,868	1,032,997
NET ASSETS				
Invested in capital assets, net of related debt	3,580,772	4,840,375	8,421,147	1,876,524
Restricted for:				
Bond retirement	-	124,264	124,264	-
Public safety	2,954	-	2,954	-
Public works	2,009,047	-	2,009,047	-
Unrestricted	1,350,097	2,085,671	3,435,768	57,622
Total net assets	\$ 6,942,870	\$ 7,050,310	\$ 13,993,180	\$ 1,934,146

See notes to the financial statements

City of Otsego
STATEMENT OF ACTIVITIES
Year ended June 30, 2008

Functions/Programs	<u>Expenses</u>	<u>Program revenues</u>		
		<u>Charges for services</u>	<u>Operating grants and contributions</u>	<u>Capital grants and contributions</u>
Primary government				
Governmental activities:				
Legislative	\$ 11,050	\$ -	\$ -	\$ -
General government	578,124	29,700	-	-
Public safety	1,042,389	186,400	1,633	75,583
Public works	724,524	37,814	295,703	-
Community and economic development	26,622	195	-	-
Parks and recreation	74,740	-	-	-
Total governmental activities	<u>2,457,449</u>	<u>254,109</u>	<u>297,336</u>	<u>75,583</u>
Business-type activities:				
Land development	30,263	26,400	-	-
Sewer	528,031	651,252	-	-
Water	334,868	305,811	-	60,321
Total business-type activities	<u>893,162</u>	<u>983,463</u>	<u>-</u>	<u>60,321</u>
Total primary government	<u>\$ 3,350,611</u>	<u>\$ 1,237,572</u>	<u>\$ 297,336</u>	<u>\$ 135,904</u>
Component unit - DDA	<u>\$ 208,857</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:
Taxes
Public service tax
State shared revenue
Franchise fees
Investment income
Refund - Michigan Tax Tribunal
Other

Total general revenues

Change in net assets

Net assets - beginning

Net assets - ending

Net (expenses) revenues and changes in net assets

Primary government

<i>Governmental activities</i>	<i>Business-type activities</i>	<i>Totals</i>	<i>Component unit</i>
\$ (11,050)		\$ (11,050)	
(548,424)		(548,424)	
(778,773)		(778,773)	
(391,007)		(391,007)	
(26,427)		(26,427)	
(74,740)		(74,740)	
<u>(1,830,421)</u>		<u>(1,830,421)</u>	
	\$ (3,863)	(3,863)	
	123,221	123,221	
	<u>31,264</u>	<u>31,264</u>	
	<u>150,622</u>	<u>150,622</u>	
<u>(1,830,421)</u>	<u>150,622</u>	<u>(1,679,799)</u>	
			\$ <u>(208,857)</u>
1,292,427	-	1,292,427	335,850
116,499	-	116,499	-
380,061	-	380,061	-
37,923	-	37,923	-
150,083	55,447	205,530	7,974
-	119,455	119,455	-
<u>13,508</u>	<u>-</u>	<u>13,508</u>	<u>506</u>
<u>1,990,501</u>	<u>174,902</u>	<u>2,165,403</u>	<u>344,330</u>
160,080	325,524	485,604	135,473
<u>6,782,790</u>	<u>6,724,786</u>	<u>13,507,576</u>	<u>1,798,673</u>
<u>\$ 6,942,870</u>	<u>\$ 7,050,310</u>	<u>\$ 13,993,180</u>	<u>\$ 1,934,146</u>

See notes to the financial statements

City of Otsego
BALANCE SHEET - governmental funds
June 30, 2008

	<u>General</u>	<u>Major Street</u>	<u>Street and Bridge</u>	<u>Special Assessment Capital Project</u>	<u>Other governmental fund</u>	<u>Totals</u>
ASSETS						
Cash	\$ 743,700	\$ 438,501	\$ 112,232	\$ 170,775	\$ 309,516	\$ 1,774,724
Receivables	160,226	269,146	-	62,571	11,826	503,769
Due from other funds	-	3,688	109,602	-	-	113,290
Due from component unit	-	-	766,049	175,000	-	941,049
Prepaid expenses	64,295	1,010	-	-	1,089	66,404
Total assets	<u>\$ 968,221</u>	<u>\$ 712,345</u>	<u>\$ 987,883</u>	<u>\$ 408,346</u>	<u>\$ 322,441</u>	<u>\$ 3,399,236</u>
LIABILITIES						
Payables	\$ 33,267	\$ 9,976	\$ -	\$ -	\$ 1,177	\$ 44,420
Accrued liabilities	37,380	948	-	-	498	38,826
Due to other funds	7,751	766	-	-	257	8,774
Due to other governmental units	17,649	-	-	-	-	17,649
Customer deposits	12,457	-	-	-	-	12,457
Deferred revenue	-	-	-	62,571	-	62,571
Total liabilities	<u>108,504</u>	<u>11,690</u>	<u>-</u>	<u>62,571</u>	<u>1,932</u>	<u>184,697</u>
FUND BALANCES						
Reserved for public safety	2,954	-	-	-	-	2,954
Reserved for long-term advance to component unit	-	-	750,000	175,000	-	925,000
Unreserved:						
Designated for capital outlay	120,000	-	-	-	-	120,000
Undesignated	736,763	700,655	237,883	170,775	-	1,846,076
Undesignated, reported in nonmajor special revenue fund	-	-	-	-	320,509	320,509
Total fund balances	<u>859,717</u>	<u>700,655</u>	<u>987,883</u>	<u>345,775</u>	<u>320,509</u>	<u>3,214,539</u>
Total liabilities and fund balances	<u>\$ 968,221</u>	<u>\$ 712,345</u>	<u>\$ 987,883</u>	<u>\$ 408,346</u>	<u>\$ 322,441</u>	<u>\$ 3,399,236</u>

Total fund balances - total governmental activities \$ 3,214,539

Amounts reported for governmental activities (page 4) in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 3,284,085

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. 62,571

Internal service funds are used by management to charge costs of fleet management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. 446,625

Long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds. (64,950)

Net assets of governmental activities \$ 6,942,870

See notes to the financial statements

City of Otsego**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - governmental funds***Year ended June 30, 2008*

	<u>General</u>	<u>Major Street</u>	<u>Street and Bridge</u>
REVENUES			
Taxes	\$ 1,292,427	\$ -	\$ -
Federal grants	75,583	-	-
State grants	381,693	201,710	-
Fines and forfeitures	13,861	-	-
Licenses and permits	119,965	-	-
Intergovernmental	89,284	25,136	116,499
Charges for services	40,261	-	-
Interest and rentals	64,804	18,694	37,985
Other	34,145	882	-
	<u>2,112,023</u>	<u>246,422</u>	<u>154,484</u>
Total revenues			
	<u>2,112,023</u>	<u>246,422</u>	<u>154,484</u>
EXPENDITURES			
Legislative	11,050	-	-
General government	534,144	-	-
Public safety	961,731	-	-
Public works	532,545	117,458	-
Community and economic development	20,428	-	-
Recreation and culture - parks department	74,631	-	-
Capital outlay	121,374	-	-
	<u>2,255,903</u>	<u>117,458</u>	<u>-</u>
Total expenditures			
	<u>2,255,903</u>	<u>117,458</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(143,880)</u>	<u>128,964</u>	<u>154,484</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	-	-	(18,780)
	<u>-</u>	<u>-</u>	<u>(18,780)</u>
Total other financing sources (uses)			
	<u>-</u>	<u>-</u>	<u>(18,780)</u>
NET CHANGE IN FUND BALANCES	(143,880)	128,964	135,704
FUND BALANCES - BEGINNING	<u>1,003,597</u>	<u>571,691</u>	<u>852,179</u>
FUND BALANCES - ENDING	<u>\$ 859,717</u>	<u>\$ 700,655</u>	<u>\$ 987,883</u>

<i>Special Assessment Capital Project</i>	<i>Other governmental fund</i>	<i>Totals</i>
\$ -	\$ -	\$ 1,292,427
-	-	75,583
-	75,265	658,668
-	-	13,861
-	-	119,965
-	-	230,919
-	-	40,261
17,149	10,584	149,216
9,948	603	45,578
<u>27,097</u>	<u>86,452</u>	<u>2,626,478</u>
-	-	11,050
-	-	534,144
-	-	961,731
-	57,184	707,187
-	-	20,428
-	-	74,631
-	-	121,374
<u>-</u>	<u>57,184</u>	<u>2,430,545</u>
<u>27,097</u>	<u>29,268</u>	<u>195,933</u>
-	18,780	18,780
-	-	(18,780)
<u>-</u>	<u>18,780</u>	<u>-</u>
27,097	48,048	195,933
<u>318,678</u>	<u>272,461</u>	<u>3,018,606</u>
<u>\$ 345,775</u>	<u>\$ 320,509</u>	<u>\$ 3,214,539</u>

See notes to the financial statements

City of Otsego

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - governmental funds (Continued)**

Year ended June 30, 2008

Net change in fund balances - total governmental funds (page 7)	\$ 195,933
Amounts reported for <i>governmental activities</i> in the statement of activities (page 5) are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation (\$151,732) and loss on disposal (\$346) exceeded expenditures (\$122,354) for capital assets in the current period.	(29,724)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	(9,948)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(3,638)
The net revenue of certain activities of the internal service fund is reported with governmental activities.	<u>7,457</u>
Change in net assets of governmental activities	<u>\$ 160,080</u>

See notes to the financial statements

City of Otsego
STATEMENT OF NET ASSETS - proprietary funds
June 30, 2008

	<i>Business-type activities - Enterprise Funds</i>				<i>Governmental activities</i>
	<i>Sewer</i>	<i>Water</i>	<i>Capital Project</i>	<i>Totals</i>	<i>DPW Equipment</i>
ASSETS					
Current assets:					
Cash	\$ 806,468	\$ 211,896	\$ 47,773	\$ 1,066,137	\$ 136,199
Receivables	173,470	75,268	-	248,738	-
Due from other funds	-	-	-	-	11,022
Due from component unit	-	-	-	-	945
Inventory	386	25,168	786,684	812,238	5,602
Prepaid expenses	8,612	6,962	-	15,574	5,258
Total current assets	988,936	319,294	834,457	2,142,687	159,026
Noncurrent assets:					
Restricted cash	204,871	64,393	-	269,264	-
Capital assets, net:					
Sewer system	3,402,352	-	-	3,402,352	-
Water system	-	1,698,023	-	1,698,023	-
Buildings and equipment	-	-	-	-	296,687
Total capital assets	3,402,352	1,698,023	-	5,100,375	296,687
Total noncurrent assets	3,607,223	1,762,416	-	5,369,639	296,687
Total assets	4,596,159	2,081,710	834,457	7,512,326	455,713
LIABILITIES					
Current liabilities:					
Accounts payable	33,437	25,317	-	58,754	8,281
Accrued expenses	20,115	7,609	-	27,724	807
Due to other funds	4,594	1,342	109,602	115,538	-
Bonds payable - current	130,000	15,000	-	145,000	-
Total current liabilities	188,146	49,268	109,602	347,016	9,088
Noncurrent liabilities - revenue bonds payable	-	115,000	-	115,000	-
Total liabilities	188,146	164,268	109,602	462,016	9,088
NET ASSETS					
Investment in capital assets, net of related debt	3,272,352	1,568,023	-	4,840,375	296,687
Restricted bond retirement	74,871	49,393	-	124,264	-
Unrestricted, unallocated	1,060,790	300,026	724,855	2,085,671	149,938
Total net assets	\$ 4,408,013	\$ 1,917,442	\$ 724,855	\$ 7,050,310	\$ 446,625

See notes to financial statements

City of Otsego

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET ASSETS - *proprietary funds*

Year ended June 30, 2008

	<i>Business-type activities - Enterprise Funds</i>				<i>Governmental activities</i>
	<i>Sewer</i>	<i>Water</i>	<i>Capital Project</i>	<i>Totals</i>	<i>DPW Equipment</i>
OPERATING REVENUES					
Charges for services	\$ 637,137	\$ 291,056	\$ 26,400	\$ 954,593	\$ 175,870
Other	14,115	14,755	-	28,870	21,485
Total operating revenues	651,252	305,811	26,400	983,463	197,355
OPERATING EXPENSES					
Mains	66,910	106,547	-	173,457	-
Wastewater treatment plant	272,005	-	-	272,005	-
Water pumping	-	111,793	-	111,793	-
Administration	76,191	47,066	-	123,257	-
Other	-	-	23,064	23,064	140,236
Depreciation	104,887	62,587	-	167,474	58,055
Total operating expenses	519,993	327,993	23,064	871,050	198,291
Operating income (loss)	131,259	(22,182)	3,336	112,413	(936)
NONOPERATING REVENUES (EXPENSES)					
Interest income	43,252	10,658	1,537	55,447	4,392
Refund - Michigan Tax Tribunal	-	-	119,455	119,455	-
Capital grant from DDA	-	60,321	-	60,321	-
Interest expense	(8,038)	(6,875)	(7,199)	(22,112)	-
Gain on sale of fixed assets	-	-	-	-	4,001
Total nonoperating revenues	35,214	64,104	113,793	213,111	8,393
CHANGE IN NET ASSETS	166,473	41,922	117,129	325,524	7,457
TOTAL NET ASSETS - BEGINNING	4,241,540	1,875,520	607,726	6,724,786	439,168
TOTAL NET ASSETS - ENDING	\$ 4,408,013	\$ 1,917,442	\$ 724,855	\$ 7,050,310	\$ 446,625

See notes to financial statements

City of Otsego
STATEMENT OF CASH FLOWS - proprietary funds
Year ended June 30, 2008

	<i>Business-type activities - Enterprise Funds</i>				<i>Governmental activities</i>
	<i>Sewer</i>	<i>Water</i>	<i>Capital Project</i>	<i>Totals</i>	<i>DPW Equipment</i>
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 655,796	\$ 303,711	\$ 26,400	\$ 985,907	\$ 194,097
Receipt from Michigan Tax Tribunal	-	-	119,455	119,455	-
Payments to suppliers	(409,648)	(158,622)	(7,820)	(576,090)	(115,083)
Payments to employees	(164,572)	(82,625)	-	(247,197)	(14,738)
Net cash provided by operating activities	<u>81,576</u>	<u>62,464</u>	<u>138,035</u>	<u>282,075</u>	<u>64,276</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Increase (decrease) in due to other funds	4,047	(1,040)	(95,665)	(92,658)	-
Principal payments on long-term debt	-	-	(71,838)	(71,838)	-
Interest payments on long-term debt	-	-	(11,479)	(11,479)	-
Net cash provided by (used in) noncapital financing activities	<u>4,047</u>	<u>(1,040)</u>	<u>(178,982)</u>	<u>(175,975)</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from sale of fixed assets	-	-	-	-	4,001
Capital grant from DDA	-	60,321	-	60,321	-
Acquisition of capital assets	(307,122)	(80,861)	-	(387,983)	(86,545)
Principal payments on long-term debt	(120,000)	(15,000)	-	(135,000)	-
Interest payments on long-term debt	(10,808)	(8,784)	-	(19,592)	-
Net cash provided by (used in) capital and related financing activities	<u>(437,830)</u>	<u>(44,324)</u>	<u>-</u>	<u>(482,254)</u>	<u>(82,544)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest and dividends	<u>43,133</u>	<u>10,340</u>	<u>1,537</u>	<u>55,010</u>	<u>4,392</u>
NET INCREASE (DECREASE) IN CASH	<u>(309,174)</u>	<u>27,440</u>	<u>(39,410)</u>	<u>(321,144)</u>	<u>(13,876)</u>
BALANCES - BEGINNING (including restricted cash: Sewer - \$214,790 and Water - \$33,137)	<u>1,320,513</u>	<u>248,849</u>	<u>87,183</u>	<u>1,656,545</u>	<u>150,075</u>
BALANCES - ENDING (including restricted cash: Sewer - \$204,871 and Water - \$64,393)	<u>\$ 1,011,339</u>	<u>\$ 276,289</u>	<u>\$ 47,773</u>	<u>\$ 1,335,401</u>	<u>\$ 136,199</u>

See notes to the financial statements

STATEMENT OF CASH FLOWS - *proprietary funds* (Continued)

Year ended June 30, 2008

	<i>Business-type activities - Enterprise Funds</i>				<i>Governmental activities</i>
	<i>Sewer</i>	<i>Water</i>	<i>Capital Project</i>	<i>Totals</i>	<i>DPW Equipment</i>
Reconciliation of operating income					
(loss) to net cash provided by operating activities:					
Operating income (loss)	\$ 131,259	\$ (22,182)	\$ 3,336	\$ 112,413	\$ (936)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation expense	104,887	62,587	-	167,474	58,055
Refund - Michigan Tax Tribunal	-	-	119,455	119,455	-
(Increase) decrease in:					
Receivables, net	3,211	(2,100)	-	1,111	-
Due from other funds	1,333	-	-	1,333	(2,665)
Due from component unit	-	-	-	-	(593)
Inventory	-	(890)	15,244	14,354	4,115
Prepaid expenses	4,102	1,835	-	5,937	1,808
Increase (decrease) in:					
Accounts payable	(161,285)	23,299	-	(137,986)	4,623
Accrued liabilities	(1,931)	(85)	-	(2,016)	(131)
Net cash provided by operating activities	<u>\$ 81,576</u>	<u>\$ 62,464</u>	<u>\$ 138,035</u>	<u>\$ 282,075</u>	<u>\$ 64,276</u>

City of Otsego

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2008

	<u><i>Retiree Medical Trust</i></u>	<u><i>Agency</i></u>
ASSETS		
Cash	\$ 33,327	\$ -
Receivables - taxes	<u>-</u>	<u>1,672</u>
Total assets	<u>\$ 33,327</u>	<u>\$ 1,672</u>
LIABILITIES		
Due to other governmental units		<u>\$ 1,672</u>
NET ASSETS		
Held in trust for retirees' health benefits	<u>\$ 33,327</u>	

See notes to the financial statements

City of Otsego

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year ended June 30, 2008

	<u><i>Retiree Medical Trust</i></u>
ADDITIONS	
Contributions:	
Employer	\$ 54,550
Employee	<u>29,815</u>
Total contributions	84,365
Interest revenue	<u>216</u>
Total additions	84,581
DEDUCTIONS	
Retiree health insurance	<u>95,706</u>
NET DECREASE	(11,125)
NET ASSETS HELD IN TRUST FOR RETIREE HEALTH BENEFITS:	
Beginning	<u>44,452</u>
Ending	<u><u>\$ 33,327</u></u>

See notes to financial statements

City of Otsego
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the City of Otsego, Michigan (the City), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the significant accounting policies.

a) Reporting entity:

The City is governed by an elected five-member Commission. The accompanying financial statements present the government and its component unit, entities for which the government is considered to be financially accountable. The component unit is reported in a separate column in the government-wide financial statements to emphasize it is legally separate from the government.

Discretely-presented component unit - Downtown Development Authority:

This unit is presented in a separate column in the combined financial statements to emphasize that it is legally separate from the City. Separate financial statements of the component unit have not been issued, as management believes these general purpose financial statements, including disclosures, contain complete information so as to constitute a fair presentation of the component unit. The component unit's governing body is appointed by the City Commission, and its budget must be approved by the City Commission.

b) Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the City. The effect of all interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

c) Measurement focus, basis of accounting, and financial statement presentation:

The government-wide financial statements are reported using the economic resources, measurement focus, and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources, measurement focus, and the modified accrual basis of accounting.

City of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government generally considers property tax revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.

The Street and Bridge Fund accounts for the repairs and maintenance of streets and bridges not accounted for in other funds. Revenues are primarily derived from a county road millage.

The Special Assessment Capital Project Fund accounts for the construction or purchase of capital assets.

The government reports the following major proprietary funds:

The Sewer Fund accounts for the operation of the City's sewage system and treatment plant.

The Water Fund accounts for the operation of the City's water mains and pumping facilities.

The Capital Project Fund accounts for the development and sale of residential and commercial real estate for purposes of promoting economic development within the City.

Additionally, the government reports the following fund types:

The internal service fund accounts for public works operations and capital asset rentals by various City departments.

The agency fund accounts for the collection and disbursements of amounts due to other units and individuals.

City of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

The Retiree Medical Trust Fund accounts for assets held to provide medical benefits to eligible retiree participants.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to the same limitations. The government has elected not to follow subsequent private-sector standards.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds relate to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

d) Assets, liabilities, and net assets or equity:

i) Bank deposits and investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income is proportionately allocated to all funds.

ii) Receivables and payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are considered to be fully collectible.

iii) Prepaid items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

City of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d) Assets, liabilities, and net assets or equity (continued):

iv) Capital assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets other than infrastructure are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	10 - 50 years
Furniture, fixtures, and equipment	3 - 20 years
Vehicles	3 - 20 years
Sewer and water systems	50 years

v) Compensated absences (vacation and sick leave) - It is the government's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. A liability for unpaid accumulated vacation and sick leave has been recorded for the portion due to employees upon separation from service with the City. Vested compensated absences are accrued when earned in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

vi) Fund equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

vii) Prior period adjustment - The City has recorded a prior period adjustment to recognize the net assets held in trust for retirees' medical benefits of the Retiree Medical Trust Fund (a fiduciary fund) as of July 1, 2007.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the functional level. Amounts encumbered for purchase orders, contracts, etc., are tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

The City's significant budgetary violation was as follows:

<u>Fund</u>	<u>Function</u>	<u>Amended budget</u>	<u>Actual expenditures</u>	<u>Variance</u>
General	Public works	\$523,165	\$ 532,545	\$ (9,380)

City of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - DEPOSITS:

The City's cash and cash equivalents, as shown in the government-wide statement of net assets are as follows:

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Retiree Medical Trust</u>	<u>Total primary government</u>	<u>Component unit</u>
Cash	\$ 1,910,442	\$ 1,066,137	\$ 33,327	\$ 3,009,906	\$ 100,293
Cash on hand	481	-	-	481	-
Restricted assets	-	269,264	-	269,264	64,438
Total cash	<u>\$ 1,910,923</u>	<u>\$ 1,335,401</u>	<u>\$ 33,327</u>	<u>\$ 3,279,651</u>	<u>\$ 164,731</u>

Deposits with financial institutions:

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) and the City's investment policy authorize the City to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. The City's deposits are in accordance with statutory authority.

Custodial credit risk of deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized. As of June 30, 2008, \$3,092,110 of the City's (including the component unit) bank balances of \$3,462,055 was exposed to custodial credit risk because it was uninsured. The City maintains individual and pooled cash accounts for all of its funds and its component units. Due to use of pooled deposits, it is not practicable to allocate insured and uninsured portions of certain bank balances between the primary government and its component units.

The City believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the City evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories.

City of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - RECEIVABLES:

Receivables as of year end for the government's individual major and non-major funds, in the aggregate, are as follows:

	<u>Accounts</u>	<u>Interest</u>	<u>Property taxes</u>	<u>Special assess- ments</u>	<u>Inter- govern- mental</u>	<u>Totals</u>
Governmental funds:						
General Fund	\$ 28,502	\$ 2,055	\$ 66	\$ -	129,603	\$ 160,226
Major Street Fund	-	-	-	-	269,146	269,146
Special Assessments						
Capital Project Fund	-	-	-	62,571	-	62,571
Nonmajor governmental funds	<u>-</u>	<u>696</u>	<u>-</u>	<u>-</u>	<u>11,130</u>	<u>11,826</u>
Total governmental funds	<u>\$ 28,502</u>	<u>\$ 2,751</u>	<u>\$ 66</u>	<u>\$ 62,571</u>	<u>\$ 409,879</u>	<u>\$ 503,769</u>
Noncurrent portion	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 53,663</u>	<u>\$ -</u>	<u>\$ 53,663</u>
Proprietary funds:						
Sewer	\$ 172,986	\$ 484	\$ -	\$ -	\$ -	\$ 173,470
Water	<u>73,428</u>	<u>1,840</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>75,268</u>
Total proprietary funds	<u>\$ 246,414</u>	<u>\$ 2,324</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 248,738</u>

NOTES TO FINANCIAL STATEMENTS (Continued)**NOTE 5 - CAPITAL ASSETS:**

Capital asset activity of the City for the current year was as follows:

	<i>Beginning balance</i>	<i>Increase</i>	<i>Decreases</i>	<i>Ending Balance</i>
Governmental activities:				
Capital assets not being depreciated - land	\$ 772,498	\$ -	\$ -	\$ 772,498
Capital assets being depreciated:				
Buildings	2,026,654	-	-	2,026,654
Improvements	894,500	14,628	-	909,128
Furniture, fixtures, and equipment	704,727	108,616	(27,903)	785,440
Vehicles	1,131,928	85,656	(20,908)	1,196,676
Subtotal	<u>4,757,809</u>	<u>208,900</u>	<u>(48,811)</u>	<u>4,917,898</u>
Less accumulated depreciation for:				
Buildings	(481,833)	(41,946)	-	(523,779)
Improvements	(176,929)	(39,908)	-	(216,837)
Furniture, fixtures, and equipment	(536,762)	(46,862)	27,557	(556,067)
Vehicles	(752,778)	(81,071)	20,908	(812,941)
Subtotal	<u>(1,948,302)</u>	<u>(209,787)</u>	<u>48,465</u>	<u>(2,109,624)</u>
Net capital assets being depreciated	<u>2,809,507</u>	<u>(887)</u>	<u>(346)</u>	<u>2,808,274</u>
Total capital assets - net of depreciation	<u>\$ 3,582,005</u>	<u>\$ (887)</u>	<u>\$ (346)</u>	<u>\$ 3,580,772</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 23,052	\$ -	\$ -	\$ 23,052
Construction in progress	464,664	-	(464,664)	-
Subtotal	<u>487,716</u>	<u>-</u>	<u>(464,664)</u>	<u>23,052</u>
Capital assets being depreciated:				
Sewer system	4,184,322	721,012	-	4,905,334
Water system	2,470,451	131,633	-	2,602,084
Subtotal	<u>6,654,773</u>	<u>852,645</u>	<u>-</u>	<u>7,507,418</u>
Less accumulated depreciation for:				
Sewer system	(1,421,146)	(104,887)	-	(1,526,033)
Water system	(841,475)	(62,587)	-	(904,062)
Subtotal	<u>(2,262,621)</u>	<u>(167,474)</u>	<u>-</u>	<u>(2,430,095)</u>
Net capital assets being depreciated	<u>4,392,152</u>	<u>685,171</u>	<u>-</u>	<u>5,077,323</u>
Total capital assets - net of depreciation	<u>\$ 4,879,868</u>	<u>\$ 685,171</u>	<u>\$ (464,664)</u>	<u>\$ 5,100,375</u>

City of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS (Continued):

	<u>Beginning balance</u>	<u>Increase</u>	<u>Decreases</u>	<u>Ending Balance</u>
Component unit:				
Capital assets not being depreciated:				
Land	\$ 98,069	\$ -	\$ -	\$ 98,069
Construction in progress	<u>247,600</u>	<u>1,358,868</u>	<u>(1,606,468)</u>	<u>-</u>
Subtotal	<u>345,669</u>	<u>1,358,868</u>	<u>(1,606,468)</u>	<u>98,069</u>
Capital assets being depreciated :				
Buildings and improvements	1,173,921	1,606,468	-	2,780,389
Equipment	<u>-</u>	<u>37,130</u>	<u>-</u>	<u>37,130</u>
Subtotal	<u>1,173,921</u>	<u>1,643,598</u>	<u>-</u>	<u>2,817,519</u>
Less accumulated depreciation for:				
Buildings and improvements	(68,172)	(44,964)	-	(113,136)
Equipment	<u>-</u>	<u>(928)</u>	<u>-</u>	<u>(928)</u>
Subtotal	<u>(68,172)</u>	<u>(45,892)</u>	<u>-</u>	<u>(114,064)</u>
Net capital assets being depreciated	<u>1,105,749</u>	<u>1,597,706</u>	<u>-</u>	<u>2,703,455</u>
Total capital assets - net of depreciation	<u>\$ 1,451,418</u>	<u>\$ 2,956,574</u>	<u>\$ (1,606,468)</u>	<u>\$ 2,801,524</u>

Depreciation expense was charged to programs of the City as follows:

Governmental activities:	
General government	\$ 31,129
Public safety	78,147
Public works	94,353
Recreation and culture	<u>6,158</u>
Total governmental activities	<u>\$ 209,787</u>

City of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - LONG-TERM LIABILITIES:

Long-term liabilities at June 30, 2008, are comprised of the following individual issues:

Business-type activities:

\$400,000 1975 Water Supply System Revenue Bonds - payable in annual installments of \$15,000 to \$20,000, plus interest at 5.00%; final payment due January 2015.	\$ 130,000
\$945,000 1989 Wastewater System Revenue Bonds - payable in annual installments of \$65,000 to \$85,000, plus interest at 7.20%; final payment due November 2008.	85,000
\$455,000 1989 Wastewater System Revenue Bonds - payable in annual installments of \$30,000 to \$45,000, plus interest at 7.05% to 7.15%; final payment due November 2008.	<u>45,000</u>
Total	<u>\$ 260,000</u>

Component unit:

\$925,000 advance from primary government - payable from property taxes, as available, plus interest at current investment rate of return (3.33% at June 30, 2008)	<u>\$ 925,000</u>
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Long-term liability activity for the year ended June 30, 2008, was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Governmental activities - compensated absences	<u>\$ 111,224</u>	<u>\$ 65,110</u>	<u>\$ (92,795)</u>	<u>\$ 83,539</u>	<u>\$ -</u>
Business-type activities:					
1975 revenue bonds	\$ 145,000	\$ -	\$ (15,000)	\$ 130,000	\$ 15,000
1989 revenue bonds	165,000	-	(80,000)	85,000	85,000
1990 revenue bonds	85,000	-	(40,000)	45,000	45,000
Total revenue bonds	395,000	-	(135,000)	260,000	145,000
Eley IV land contract	71,838		(71,838)	-	-
Compensated absences	<u>24,618</u>	<u>24,450</u>	<u>(23,146)</u>	<u>25,922</u>	<u>-</u>
Total business-type activities	<u>\$ 491,456</u>	<u>\$ 24,450</u>	<u>\$ (229,984)</u>	<u>\$ 285,922</u>	<u>\$ 145,000</u>
Component unit:					
Advance from primary government	<u>\$ -</u>	<u>\$ 925,000</u>	<u>\$ -</u>	<u>\$ 925,000</u>	<u>\$ 200,000</u>

All bonds payable are secured by the full faith and credit of the City.

City of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - LONG-TERM LIABILITIES (Continued):

Debt service requirements at June 30, 2008, were as follows:

<u>Year ended</u> <u>June 30:</u>	<u>Business-type activities</u>		<u>Component unit</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 145,000	\$ 8,223	\$ 200,000	\$ 31,241
2010	20,000	5,250	200,000	24,514
2011	20,000	4,250	200,000	17,752
2012	20,000	3,250	200,000	10,989
2013	20,000	2,250	125,000	4,227
2014 - 2015	35,000	1,625	-	-
Total	<u>\$ 260,000</u>	<u>\$ 24,848</u>	<u>\$ 925,000</u>	<u>\$ 88,723</u>

NOTE 7 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:

The composition of interfund balances is as follows:

<u>Fund</u>	<u>Interfund</u> <u>receivables</u>	<u>Fund</u>	<u>Interfund</u> <u>payables</u>
Major Street	\$ 3,688	Sewer	\$ 3,688
DPW Equipment	11,022	General	7,751
		Major Street	766
		Sewer	906
		Water	1,342
		Other governmental funds	257
			<u>11,022</u>
Street and bridge	<u>109,602</u>	Capital project	<u>109,602</u>
Total	<u>\$ 124,312</u>	Total	<u>\$ 124,312</u>

The interfund balance due to the Street and Bridge Fund from the Capital Project Fund represents a short-term loan to cover development inventory costs. Other interfund balances represent current amounts due for equipment charges in the DPW fund.

A summary of interfund transfers for the year ended June 30, 2008, are as follows:

<u>Fund</u>	<u>Transfer in</u>	<u>Fund</u>	<u>Transfer out</u>
Local street	\$ 18,780	Street and bridge	\$ 18,780

The transfer was used to move available unrestricted funds from Street and Bridge to finance local street costs.

City of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 8 - RISK MANAGEMENT:

The City is exposed to various risks of loss to general liability, property and casualty, workers' compensation, and employee health and medical claims. The risks of loss arising from general liability up to \$5,000,000, building contents, workers' compensation, employee medical, and casualty are managed through purchased commercial insurance. For all risks of loss, there have been no significant reductions in insurance coverage from coverage provided in prior years. Also, in the past three years, settlements did not exceed insurance coverage.

NOTE 9 - RETIREMENT PLAN:

The City maintains a defined contribution pension plan, which includes all of its full-time employees. The City contributes 10% of covered payroll to this plan on behalf of qualifying employees. The pension plan provides for various elections as to the retirement benefit determination. Benefits are vested after two years of credited service.

The City made the required contributions of \$112,823 for the year ended June 30, 2008. The City is not a trustee of these plans, nor is the City responsible for investment management of plan assets.

NOTE 10 - CONTINGENT LIABILITIES:

The City is contingently liable to its employees for approximately \$304,000 in accumulated non-vested sick pay benefits.

NOTE 11 - CONSTRUCTION CODE ACT:

A summary of construction code enforcement transactions for the year ended June 30, 2008, is as follows:

Revenues	\$ 78,045
Expenses	<u>75,571</u>
Excess of revenues over expenses	<u>\$ 2,474</u>

NOTE 12 - OTHER POST-EMPLOYMENT BENEFITS:

In accordance with the City's personnel policy, upon reaching age 55, or anytime thereafter, and having completed 20 years of service with the City, department heads may retire and receive health insurance benefits for the individual and his/her spouse. The City purchases commercial health insurance to provide this benefit, which is similar to the benefit available to active employees. The City will continue to provide this benefit until the retiree becomes Medicare eligible, at which time all City premium contributions are discontinued. Currently, five retirees meet the eligibility requirements for post-employment benefits. Retirees contribute up to 50% of the health insurance costs, and may purchase Medicare supplement coverage at their own cost after City contributions are discontinued. In 2008, the City's contributions for these benefits, net of participant contributions were \$54,550.

REQUIRED SUPPLEMENTARY INFORMATION

City of Otsego

BUDGETARY COMPARISON SCHEDULE - General Fund

Year ended June 30, 2008

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Taxes	\$ 1,358,015	\$ 1,328,175	\$ 1,292,427	\$ (35,748)
Federal grants	20,000	90,345	75,583	(14,762)
State grants	401,700	401,700	381,693	(20,007)
Fines and forfeitures	17,000	17,000	13,861	(3,139)
Licenses and permits	71,875	113,985	119,965	5,980
Intergovernmental	90,000	90,000	89,284	(716)
Charges for services	45,800	47,800	40,261	(7,539)
Interest and rentals	50,000	60,000	64,804	4,804
Other	<u>43,850</u>	<u>51,690</u>	<u>34,145</u>	<u>(17,545)</u>
Total revenues	<u>2,098,240</u>	<u>2,200,695</u>	<u>2,112,023</u>	<u>(88,672)</u>
EXPENDITURES				
Legislative	11,050	11,050	11,050	-
General government	539,235	561,235	534,144	27,091
Public safety	901,330	974,330	961,731	12,599
Public works	461,915	523,165	532,545	(9,380)
Community and economic development	27,100	21,100	20,428	672
Recreation and culture	106,290	87,290	74,631	12,659
Capital outlay	<u>38,250</u>	<u>124,350</u>	<u>121,374</u>	<u>2,976</u>
Total expenditures	<u>2,085,170</u>	<u>2,302,520</u>	<u>2,255,903</u>	<u>46,617</u>
NET CHANGE IN FUND BALANCES	13,070	(101,825)	(143,880)	(42,055)
FUND BALANCES - BEGINNING	<u>1,003,597</u>	<u>1,003,597</u>	<u>1,003,597</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 1,016,667</u>	<u>\$ 901,772</u>	<u>\$ 859,717</u>	<u>\$ (42,055)</u>

City of Otsego
BUDGETARY COMPARISON SCHEDULE - Major Street Fund
Year ended June 30, 2008

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
State grants	\$ 421,840	\$ 421,840	\$ 201,710	\$ (220,130)
Intergovernmental	18,000	18,000	25,136	7,136
Interest	15,000	15,000	18,694	3,694
Other	-	-	882	882
	<u>454,840</u>	<u>454,840</u>	<u>246,422</u>	<u>(208,418)</u>
EXPENDITURES				
Public works:				
Surface maintenance	32,155	32,155	10,707	21,448
Sweeping	7,300	7,300	6,831	469
Shoulder maintenance	465	465	78	387
Trees and shrubs	8,660	8,335	8,912	(577)
Drainage	6,580	6,580	2,703	3,877
Bridge maintenance	2,720	2,720	(6)	2,726
Traffic signs and signals	4,530	4,530	3,131	1,399
Pavement marking	5,035	5,035	3,516	1,519
Winter maintenance	24,065	24,065	32,381	(8,316)
Administration	10,585	10,585	8,726	1,859
State trunk line maintenance	27,860	27,860	25,851	2,009
Engineering	23,000	23,000	14,628	8,372
	<u>152,955</u>	<u>152,630</u>	<u>117,458</u>	<u>35,172</u>
Capital outlay	<u>264,800</u>	<u>264,800</u>	<u>-</u>	<u>264,800</u>
	<u>417,755</u>	<u>417,430</u>	<u>117,458</u>	<u>299,972</u>
NET CHANGE IN FUND BALANCES	37,085	37,410	128,964	91,554
FUND BALANCES - BEGINNING	<u>571,691</u>	<u>571,691</u>	<u>571,691</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 608,776</u>	<u>\$ 609,101</u>	<u>\$ 700,655</u>	<u>\$ 91,554</u>

City of Otsego

BUDGETARY COMPARISON SCHEDULE - Street and Bridge Fund

Year ended June 30, 2008

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Intergovernmental	\$ 115,000	\$ 115,000	\$ 116,499	\$ 1,499
Interest	<u>27,000</u>	<u>27,000</u>	<u>37,985</u>	<u>10,985</u>
Total revenues	142,000	142,000	154,484	12,484
 OTHER FINANCING USES				
Transfer to Local Street Fund	<u>(18,780)</u>	<u>(18,780)</u>	<u>(18,780)</u>	<u>-</u>
 NET CHANGE IN FUND BALANCES	123,220	123,220	135,704	12,484
 FUND BALANCES - BEGINNING	<u>852,179</u>	<u>852,179</u>	<u>852,179</u>	<u>-</u>
 FUND BALANCES - ENDING	<u>\$ 975,399</u>	<u>\$ 975,399</u>	<u>\$ 987,883</u>	<u>\$ 12,484</u>

SUPPLEMENTARY INFORMATION

City of Otsego
BALANCE SHEET - non-major governmental fund
June 30, 2008

	Special revenue fund
	Local Street
ASSETS	
Cash	\$ 309,516
Receivables	696
Due from other funds	-
Due from other governmental units	11,130
Prepaid expenses	<u>1,099</u>
Total assets	<u>\$ 322,441</u>
LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable	\$ 1,177
Accrued liabilities	498
Due to other funds	<u>257</u>
Total liabilities	1,932
Fund balance, unrestricted	<u>320,509</u>
Total liabilities and fund balance	<u>\$ 322,441</u>

City of Otsego

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - *non-major governmental fund***

Year ended June 30, 2008

	<u><i>Special revenue fund</i></u>
	<u><i>Local Street</i></u>
REVENUES	
State grants	\$ 75,265
Intergovernmental	-
Interest	10,584
Other	<u>603</u>
Total revenues	<u>86,452</u>
 EXPENDITURES	
Public works	<u>57,184</u>
 EXCESS OF REVENUES OVER EXPENDITURES	29,268
 OTHER FINANCING SOURCES	
Operating transfer in	<u>18,780</u>
 NET CHANGE IN FUND BALANCE	48,048
 FUND BALANCE - BEGINNING	<u>272,461</u>
 FUND BALANCE - ENDING	<u>\$ 320,509</u>

City of Otsego
BALANCE SHEETS - governmental funds
June 30, 2008

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Street and Bridge</u>	<u>Special Assessment Capital Project</u>
ASSETS					
Cash	\$ 743,700	\$ 438,501	\$ 309,516	\$ 112,232	\$ 170,775
Receivables:					
Taxes	66	-	-	-	-
Special assessments	-	-	-	-	62,571
Accounts	28,502	-	-	-	-
Interest	2,055	-	696	-	-
Due from other funds	-	3,688	-	109,602	-
Due from component unit	-	-	-	766,049	175,000
Due from other governmental units	129,603	269,146	11,130	-	-
Prepaid expenses	64,295	1,010	1,099	-	-
Total assets	<u>\$ 968,221</u>	<u>\$ 712,345</u>	<u>\$ 322,441</u>	<u>\$ 987,883</u>	<u>\$ 408,346</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 33,267	\$ 9,976	\$ 1,177	\$ -	\$ -
Accrued liabilities	37,380	948	498	-	-
Due to other funds	7,751	766	257	-	-
Due to other governmental units	17,649	-	-	-	-
Customer deposits	12,457	-	-	-	-
Deferred revenue	-	-	-	-	62,571
Total liabilities	<u>108,504</u>	<u>11,690</u>	<u>1,932</u>	<u>-</u>	<u>62,571</u>
Fund balances:					
Reserved for public safety	2,954	-	-	-	-
Reserved for long-term advance to component unit	-	-	-	750,000	175,000
Unreserved:					
Designated for fire truck	120,000	-	-	-	-
Undesignated	736,763	700,655	320,509	237,883	170,775
Total fund balances	<u>859,717</u>	<u>700,655</u>	<u>320,509</u>	<u>987,883</u>	<u>345,775</u>
Total liabilities and fund balances	<u>\$ 968,221</u>	<u>\$ 712,345</u>	<u>\$ 322,441</u>	<u>\$ 987,883</u>	<u>\$ 408,346</u>

*City of Otsego***STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL - General Fund***Year ended June 30, 2008*

	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES			
Taxes	\$ 1,328,175	\$ 1,292,427	\$ (35,748)
Federal grants	90,345	75,583	(14,762)
State grants	401,700	381,693	(20,007)
Fines and forfeitures	17,000	13,861	(3,139)
Licenses and permits	113,985	119,965	5,980
Intergovernmental	90,000	89,284	(716)
Charges for services	47,800	40,261	(7,539)
Interest and rentals	60,000	64,804	4,804
Other	51,690	34,145	(17,545)
Total revenues	<u>2,200,695</u>	<u>2,112,023</u>	<u>(88,672)</u>
EXPENDITURES			
Legislative	<u>11,050</u>	<u>11,050</u>	<u>-</u>
General government:			
City manager	74,890	74,077	813
Elections	5,400	4,935	465
Assessor	44,425	45,194	(769)
Board of Review	750	931	(181)
Treasurer/finance director	222,125	210,588	11,537
Building and grounds	34,215	30,274	3,941
Cemetery	60,870	46,512	14,358
Other administration	118,560	121,633	(3,073)
Total general government	<u>561,235</u>	<u>534,144</u>	<u>27,091</u>
Public safety:			
Police	718,020	712,128	5,892
Fire	176,410	174,032	2,378
Building inspections	79,900	75,571	4,329
Total public safety	<u>974,330</u>	<u>961,731</u>	<u>12,599</u>

City of Otsego

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL - General Fund (Continued)**

Year ended June 30, 2008

	<u><i>Amended budget</i></u>	<u><i>Actual</i></u>	<u><i>Variance favorable (unfavorable)</i></u>
EXPENDITURES (Continued)			
Public works:			
Department of public works	\$ 86,130	\$ 87,843	\$ (1,713)
General services	255,570	263,648	(8,078)
Sidewalks	14,535	9,880	4,655
Recycling	102,145	106,187	(4,042)
Transfer station	64,785	64,987	(202)
Total public works	<u>523,165</u>	<u>532,545</u>	<u>(9,380)</u>
Community and economic development	<u>21,100</u>	<u>20,428</u>	<u>672</u>
Recreation and culture:			
Parks and recreation	70,790	63,855	6,935
Community center	16,500	10,776	5,724
Total recreation and culture	<u>87,290</u>	<u>74,631</u>	<u>12,659</u>
Capital outlay	<u>124,350</u>	<u>121,374</u>	<u>2,976</u>
Total expenditures	<u>2,302,520</u>	<u>2,255,903</u>	<u>46,617</u>
NET CHANGE IN FUND BALANCES	(101,825)	(143,880)	(42,055)
FUND BALANCES - BEGINNING	<u>1,003,597</u>	<u>1,003,597</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 901,772</u>	<u>\$ 859,717</u>	<u>\$ (42,055)</u>

City of Otsego

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL - Major Street Fund**

Year ended June 30, 2008

	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES			
State grants	\$ 421,840	\$ 201,710	\$ (220,130)
Intergovernmental	18,000	25,136	7,136
Interest	15,000	18,694	3,694
Other	-	882	882
Total revenues	<u>454,840</u>	<u>246,422</u>	<u>(208,418)</u>
EXPENDITURES			
Public works:			
Surface maintenance	32,155	10,707	21,448
Sweeping	7,300	6,831	469
Shoulder maintenance	465	78	387
Trees and shrubs	8,335	8,912	(577)
Drainage	6,580	2,703	3,877
Bridge maintenance	2,720	(6)	2,726
Traffic signs and signals	4,530	3,131	1,399
Pavement marking	5,035	3,516	1,519
Winter maintenance	24,065	32,381	(8,316)
Administration	10,585	8,726	1,859
State trunk line maintenance	27,860	25,851	2,009
Engineering	<u>23,000</u>	<u>14,628</u>	<u>8,372</u>
Total public works	<u>152,630</u>	<u>117,458</u>	<u>35,172</u>
Capital outlay	<u>264,800</u>	<u>-</u>	<u>264,800</u>
Total expenditures	<u>417,430</u>	<u>117,458</u>	<u>299,972</u>
NET CHANGE IN FUND BALANCES	37,410	128,964	91,554
FUND BALANCES - BEGINNING	<u>571,691</u>	<u>571,691</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 609,101</u>	<u>\$ 700,655</u>	<u>\$ 91,554</u>

City of Otsego

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL - Local Street Fund**

Year ended June 30, 2008

	<u><i>Amended budget</i></u>	<u><i>Actual</i></u>	<u><i>Variance favorable (unfavorable)</i></u>
REVENUES			
State grants	\$ 78,470	\$ 75,265	\$ (3,205)
Interest	10,000	10,584	584
Other	-	603	603
	<u>88,470</u>	<u>86,452</u>	<u>(2,018)</u>
Total revenues			
EXPENDITURES			
Public works:			
Surface maintenance	39,005	7,336	31,669
Contracts	10,400	8,502	1,898
Shoulder maintenance	920	-	920
Trees and shrubs	17,180	8,783	8,397
Drainage	8,745	2,704	6,041
Traffic signs and signals	2,815	1,451	1,364
Pavement marking	2,385	209	2,176
Winter maintenance	16,060	20,363	(4,303)
Administration	11,365	7,836	3,529
	<u>108,875</u>	<u>57,184</u>	<u>51,691</u>
Total expenditures			
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(20,405)	29,268	49,673
OTHER FINANCING SOURCES			
Transfer from Street and Bridge Fund	<u>20,080</u>	<u>18,780</u>	<u>(1,300)</u>
NET CHANGE IN FUND BALANCES	(325)	48,048	48,373
FUND BALANCES - BEGINNING	<u>272,461</u>	<u>272,461</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 272,136</u>	<u>\$ 320,509</u>	<u>\$ 48,373</u>

City of Otsego

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL - *Street and Bridge Fund***

Year ended June 30, 2008

	<u><i>Amended budget</i></u>	<u><i>Actual</i></u>	<u><i>Variance favorable (unfavorable)</i></u>
REVENUES			
Intergovernmental	\$ 115,000	\$ 116,499	\$ 1,499
Interest	<u>27,000</u>	<u>37,985</u>	<u>10,985</u>
Total revenues	142,000	154,484	12,484
 OTHER FINANCING USES			
Transfer to Local Street Fund	<u>(18,780)</u>	<u>(18,780)</u>	<u>-</u>
 NET CHANGE IN FUND BALANCES	123,220	135,704	12,484
 FUND BALANCES - BEGINNING	<u>852,179</u>	<u>852,179</u>	<u>-</u>
 FUND BALANCES - ENDING	<u>\$ 975,399</u>	<u>\$ 987,883</u>	<u>\$ 12,484</u>

City of Otsego

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND

BALANCES - BUDGET AND ACTUAL - *Special Assessment Capital Project Fund*

Year ended June 30, 2008

	<u><i>Amended Budget</i></u>	<u><i>Actual</i></u>	<u><i>Variance favorable (unfavorable)</i></u>
REVENUES			
Interest	\$ 15,360	\$ 17,149	\$ 1,789
Other - special assessment revenue	<u>8,720</u>	<u>9,948</u>	<u>1,228</u>
Total revenues	24,080	27,097	3,017
FUND BALANCES - BEGINNING	<u>318,678</u>	<u>318,678</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 342,758</u>	<u>\$ 345,775</u>	<u>\$ 3,017</u>

City of Otsego

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS -
BUDGET AND ACTUAL - Sewer Fund**

Year ended June 30, 2008

	<u><i>Amended budget</i></u>	<u><i>Actual</i></u>	<u><i>Variance favorable (unfavorable)</i></u>
OPERATING REVENUES			
Charges for services	\$ 597,440	\$ 637,137	\$ 39,697
Delinquent penalties	10,000	13,315	3,315
Other	-	800	800
	<u>607,440</u>	<u>651,252</u>	<u>43,812</u>
Total operating revenues			
OPERATING EXPENSES			
Mains	72,235	66,910	5,325
Wastewater treatment plant	281,390	272,005	9,385
Administration	60,935	76,191	(15,256)
Depreciation	135,800	104,887	30,913
	<u>550,360</u>	<u>519,993</u>	<u>30,367</u>
Total operating expenses			
OPERATING INCOME	<u>57,080</u>	<u>131,259</u>	<u>74,179</u>
NONOPERATING REVENUES (EXPENSES)			
Interest income	25,000	43,252	18,252
Interest expense	(10,810)	(8,038)	2,772
	<u>14,190</u>	<u>35,214</u>	<u>21,024</u>
Total nonoperating revenues			
CHANGE IN NET ASSETS	71,270	166,473	95,203
NET ASSETS - BEGINNING	<u>4,241,540</u>	<u>4,241,540</u>	<u>-</u>
NET ASSETS - ENDING	<u>\$ 4,312,810</u>	<u>\$ 4,408,013</u>	<u>\$ 95,203</u>

City of Otsego

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS -
BUDGET AND ACTUAL - *Water Fund***

Year ended June 30, 2008

	<u><i>Amended budget</i></u>	<u><i>Actual</i></u>	<u><i>Variance favorable (unfavorable)</i></u>
OPERATING REVENUES			
Charges for services	\$ 267,500	\$ 291,056	\$ 23,556
Hydrant rentals	6,370	6,370	-
Delinquent penalties	3,600	5,207	1,607
Other	-	3,178	3,178
Total operating revenues	<u>277,470</u>	<u>305,811</u>	<u>28,341</u>
OPERATING EXPENSES			
Mains	161,995	106,547	55,448
Water pumping	119,145	111,793	7,352
Administration	72,150	47,066	25,084
Depreciation	61,225	62,587	(1,362)
Total operating expenses	<u>414,515</u>	<u>327,993</u>	<u>86,522</u>
OPERATING LOSS	<u>(137,045)</u>	<u>(22,182)</u>	<u>114,863</u>
NONOPERATING REVENUES (EXPENSES)			
Interest income	6,500	10,658	4,158
Capital grant from DDA	-	60,321	60,321
Interest expense	(6,950)	(6,875)	75
Total nonoperating revenues (expenses)	<u>(450)</u>	<u>64,104</u>	<u>64,554</u>
CHANGE IN NET ASSETS	<u>(137,495)</u>	<u>41,922</u>	<u>179,417</u>
NET ASSETS - BEGINNING	<u>1,875,520</u>	<u>1,875,520</u>	<u>-</u>
NET ASSETS - ENDING	<u>\$ 1,738,025</u>	<u>\$ 1,917,442</u>	<u>\$ 179,417</u>

*City of Otsego***STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS -
BUDGET AND ACTUAL - Capital Project Fund***Year ended June 30, 2008*

	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
OPERATING REVENUES			
Sale of developed lots	\$ 265,000	\$ 26,400	\$ (238,600)
OPERATING EXPENSES			
Cost of developed lots	100,700	15,244	85,456
Legal expense	500	340	160
Property taxes	<u>-</u>	<u>7,480</u>	<u>(7,480)</u>
Total operating expenses	<u>101,200</u>	<u>23,064</u>	<u>78,136</u>
OPERATING INCOME	<u>163,800</u>	<u>3,336</u>	<u>(160,464)</u>
NONOPERATING REVENUES (EXPENSES)			
Interest income	500	1,537	1,037
Refund - Michigan Tax Tribunal	-	119,455	119,455
Interest expense	<u>(16,170)</u>	<u>(7,199)</u>	<u>8,971</u>
Total nonoperating revenues (expenses)	<u>(15,670)</u>	<u>113,793</u>	<u>129,463</u>
CHANGE IN NET ASSETS	148,130	117,129	(31,001)
NET ASSETS - BEGINNING	<u>607,726</u>	<u>607,726</u>	<u>-</u>
NET ASSETS - ENDING	<u>\$ 755,856</u>	<u>\$ 724,855</u>	<u>\$ (31,001)</u>

*City of Otsego***STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS -
BUDGET AND ACTUAL - DPW Equipment Fund***Year ended June 30, 2008*

	<u><i>Amended budget</i></u>	<u><i>Actual</i></u>	<u><i>Variance favorable (unfavorable)</i></u>
OPERATING REVENUES			
Equipment rental	\$ 155,000	\$ 175,870	\$ 20,870
Reimbursements	<u>18,000</u>	<u>21,485</u>	<u>3,485</u>
Total operating revenues	<u>173,000</u>	<u>197,355</u>	<u>24,355</u>
OPERATING EXPENSES			
Equipment pool operations	82,670	140,236	(57,566)
Depreciation	<u>60,000</u>	<u>58,055</u>	<u>1,945</u>
Total operating expenses	<u>142,670</u>	<u>198,291</u>	<u>(55,621)</u>
OPERATING INCOME (LOSS)	<u>30,330</u>	<u>(936)</u>	<u>(31,266)</u>
NONOPERATING REVENUES			
Interest income	3,500	4,392	892
Gain on sale of fixed assets	<u>6,500</u>	<u>4,001</u>	<u>(2,499)</u>
Total nonoperating revenues	<u>10,000</u>	<u>8,393</u>	<u>(1,607)</u>
CHANGE IN NET ASSETS	40,330	7,457	(32,873)
NET ASSETS - BEGINNING	<u>439,168</u>	<u>439,168</u>	<u>-</u>
NET ASSETS - ENDING	<u>\$ 479,498</u>	<u>\$ 446,625</u>	<u>\$ (32,873)</u>

City of Otsego
BALANCE SHEET - Downtown Development Authority
June 30, 2008

ASSETS

Cash	\$	100,293
Restricted cash		64,438
Prepaid expenses		<u>888</u>
Total assets	\$	<u>165,619</u>

LIABILITIES AND FUND BALANCE

Liabilities:

Accounts payable	\$	26,157
Retainages payable		64,396
Accrued liabilities		450
Due to primary government		<u>945</u>
Total liabilities		91,948
Fund balance		<u>73,671</u>
Total liabilities and fund balance	\$	<u>165,619</u>

*City of Otsego***STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL - Downtown Development Authority***Year ended June 30, 2008*

	<i><u>Amended budget</u></i>	<i><u>Actual</u></i>	<i><u>Variance favorable (unfavorable)</u></i>
REVENUES			
Tax increment financing	\$ 332,000	\$ 335,850	\$ 3,850
Interest income	10,000	7,974	(2,026)
Other	<u>1,000</u>	<u>506</u>	<u>(494)</u>
Total revenues	<u>343,000</u>	<u>344,330</u>	<u>1,330</u>
EXPENDITURES			
Public works	89,725	146,915	(57,190)
Capital outlay	<u>1,603,480</u>	<u>1,395,999</u>	<u>207,481</u>
Total expenditures	<u>1,693,205</u>	<u>1,542,914</u>	<u>150,291</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(1,350,205)	(1,198,584)	151,621
OTHER FINANCING SOURCES			
Proceeds from long-term debt	<u>1,000,000</u>	<u>925,000</u>	<u>(75,000)</u>
NET CHANGE IN FUND BALANCES	(350,205)	(273,584)	76,621
FUND BALANCES - BEGINNING	<u>347,255</u>	<u>347,255</u>	<u>-</u>
FUND BALANCES (DEFICIT) - ENDING	<u>\$ (2,950)</u>	<u>\$ 73,671</u>	<u>\$ 76,621</u>

September 9, 2008

To the Members of the
City Commission
City of Otsego

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Otsego for the year ended June 30, 2008, and have issued our report thereon dated September 9, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated July 2, 2008, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Otsego are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the City of Otsego during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was capital asset depreciation.

Management's estimate of the capital asset depreciation is based on the estimated useful lives of the City's capital assets. We evaluated the key factors and assumptions used to develop the capital asset depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.



1958-2008

The disclosures in the financial statements are neutral, consistent, and clear.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. We did not propose any audit adjustments.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter associated with the audits for the year ended June 30, 2008.

Other Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Otsego's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

This communication is intended solely for the information and use of the Members of the City Commission of the City of Otsego and is not intended to be and should not be used by anyone other than this specified party.

Sigfried Crandall P.C.